

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: South Huron Valley Utility Authority	County Wayne
Audit Date December 31, 2004	Opinion Date February 18, 2005	Date Accountant Report Submitted To State: June 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

# **South Huron Valley Utility Authority**

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**Financial Report  
with Supplemental Information  
December 31, 2004**

# **South Huron Valley Utility Authority**

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## **Contents**

<b>Report Letter</b>	<b>1-2</b>
<b>Management's Discussion and Analysis</b>	<b>3-6</b>
<b>Basic Financial Statements</b>	
Statement of Net Assets	7
Statement of Revenue, Expenses, and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to Financial Statements	10-16
<b>Other Supplemental Information</b>	
Statement of Revenue and Expenses - Budget and Actual	17
Note to Supplemental Information	18

## Independent Auditor's Report

To the Board of Commissioners  
South Huron Valley Utility Authority

We have audited the accompanying financial statements of the business-type activity of the South Huron Valley Utility Authority as of December 31, 2004 and for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of the South Huron Valley Utility Authority as of December 31, 2004 and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis as identified in the table of contents is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Huron Valley Utility Authority's basic financial statements. The other supplemental information as identified in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Commissioners  
South Huron Valley Utility Authority

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 18, 2005 on our consideration of the South Huron Valley Utility Authority's internal control over financial reporting and in our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing on internal controls over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of January 1, 2004.

February 18, 2005

# **South Huron Valley Utility Authority**

## **Management's Discussion and Analysis**

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### **Using this Annual Report**

South Huron Valley Utility Authority (SHVUA or the "Authority") is a joint venture of the Charter Townships of Brownstown, Huron, and Van Buren, the Cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the Village of South Rockwood. The Authority was founded in order to acquire and operate a sewage and wastewater treatment system, formerly operated by Wayne County. The Authority began operations on March 1, 1999. The Authority subcontracts all operations of the system and has no employees. This annual report consists of a series of financial statements, footnotes, and supplemental information. The statement of net assets and the statement of revenue, expenses, and changes in net assets provide information about the financial activities of the Authority. This is followed by the statement of cash flows, which presents detailed information about the changes in the Authority's cash position during the year. The next section includes the notes to the financial statements, which disclose the Authority's significant accounting policies and additional information related to certain amounts included on the statement of net assets. The final component of the annual report is the supplemental information, which is provided for the purpose of additional analysis.

### **Financial Overview**

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. All debt of the Authority is backed by the full faith and credit of its eight member communities. From a financial perspective, the Authority's core objective is to manage the long-term costs of sewage disposal. In essence, the Authority acts as a conduit for its eight members. The amounts to be charged to its members will, by definition, be equal to the Authority's costs of providing sewage transportation and treatment. The key financial statistics for the Authority, therefore, relate to measurements of the ability to reduce total costs to its members (as opposed to the ability to accumulate financial resources).

# South Huron Valley Utility Authority

## Management's Discussion and Analysis (Continued)

### Condensed Financial Information

The following table presents condensed information about the Authority's financial position as of December 31, 2004:

#### **Assets**

Current assets	\$ 2,287,897
Noncurrent assets	<u>111,982,591</u>
Total assets	114,270,488

#### **Liabilities**

Current liabilities	2,100,385
Long-term liabilities	<u>36,772,133</u>
Total liabilities	<u>38,872,518</u>

#### **Net Assets**

Invested in capital assets - Net of related debt	69,339,664
Restricted for capital purposes	4,750,339
Unrestricted	<u>1,307,967</u>
Total net assets	<u><b>\$ 75,397,970</b></u>

The capital assets, restricted assets, and long-term debt of the Authority increased in the current year as a result of the \$9,220,000 bond issue in June 2004 for the construction of the equalization basin. In addition, the net assets restricted for capital purposes is a result of the Charter Townships of Van Buren and Brownstown contributing cash for their share of the equalization basin.

# South Huron Valley Utility Authority

## Management's Discussion and Analysis (Continued)

The following table presents condensed information about the Authority's revenues and expenses for the year ended December 31, 2004:

<b>Operating Revenue</b>	<b>\$ 3,359,168</b>
<b>Operating Expenses</b>	<b><u>3,147,249</u></b>
<b>Operating Income</b>	<b>211,919</b>
<b>Net Nonoperating Expenses</b>	<b><u>(261,174)</u></b>
<b>Net Loss - Before capital contributions</b>	<b>(49,255)</b>
<b>Capital Contributions</b>	<b><u>4,734,896</u></b>
<b>Change in Net Assets</b>	<b>4,685,641</b>
<b>Net Assets - Beginning of year</b>	<b><u>70,712,329</u></b>
<b>Net Assets - End of year</b>	<b><u><u>\$ 75,397,970</u></u></b>

The sewage billings from contributing communities increased by roughly 17 percent in 2004. This was due to a 17 percent increase in rates beginning in October 2003. In January 2004 there was a 5 percent increase in rates. In addition, there was a 12 percent increase in rates specifically related to the proportionate share of the costs associated with the operation of the Trenton Arm and Odette Pump Station.

The total operating expenses for 2004 increased by roughly 8 percent. The main increases in comparison to 2003 were due to the annual increase in the operation and maintenance expenses provided by Earthtech. In addition, the Authority entered into an agreement with an engineering company to conduct a meter study. Roughly 25 percent of the total contracted amount (\$278,000) was accrued as an expense in the 2004 calendar year.

### **Budgetary Highlights**

The amended budget projected expenditures exceeding revenues by \$136,742. The actual net deficit for 2004 was \$45,518. The two primary reasons for the actual results resulting in a lower deficit than anticipated were lower costs than expected related to the contractual agreement for the meter study through December and fewer capital improvement expenditures than anticipated.



# **South Huron Valley Utility Authority**

## **Management's Discussion and Analysis (Continued)**

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### **Capital Asset and Debt Administration**

The primary capital improvement project during the current year consisted of the continued construction of an equalization basin. The Authority is under consent order with the Department of Environmental Quality concerning the construction of an equalization basin for the Authority's sewage treatment plant facility. The project is expected to cost approximately \$14,000,000, which is being financed through bonds and capital contributions from communities. The project consists of the construction of a six million gallon capacity flow equalization basin. The construction of the equalization basin is well under way and is on schedule to be completed in July 2006.

As mentioned above, the Authority issued State Revolving Fund bonds to finance \$9,220,000 of the estimated cost of the project.

### **Economic Factors and Next Year's Budgets and Rates**

The SHVUA equalization basin discussed above will have a significant impact on the future cost of sewage disposal. Operation and maintenance expenses related to running the new equalization basin are expected to increase by roughly \$150,000 in 2006 and \$230,000 in subsequent years.

### **Contacting the Authority's Management**

This financial report is intended to provide the Authority's members with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives from the member communities. If you have questions about this report or need additional information, we welcome you to contact the Authority chairperson.

# South Huron Valley Utility Authority

## Statement of Net Assets December 31, 2004

### Assets

#### Current assets:

Cash (Note 3)	\$ 391,693
Accounts receivable - Operations	49,372
Accounts receivable - Lookback adjustment	48,552
Prepaid expenses	222,662
Due from other governmental units - Current portion	<u>1,575,618</u>
Total current assets	2,287,897

#### Noncurrent assets:

Due from other governmental units - Net of current portion	115,000
Restricted assets (Note 3)	9,571,841
Bond issuance costs - Net of accumulated amortization of \$1,333	62,662
Capital assets not being depreciated (Note 4)	6,099,769
Capital assets being depreciated - Net (Note 4)	<u>96,133,319</u>
Total noncurrent assets	<u>111,982,591</u>

Total assets 114,270,488

### Liabilities

#### Current liabilities:

Accounts payable	120,201
Accounts payable - Lookback adjustment	170,970
Accounts payable - Construction	1,513,881
Due to other governmental units - Current portion (Note 6)	38,333
Current portion of meter loan payable (Note 5)	<u>257,000</u>
Total current liabilities	2,100,385

#### Long-term liabilities:

Due to other governmental units - Net of current portion (Note 6)	115,000
Long-term debt - Net of current portion (Note 5)	<u>36,657,133</u>
Total long-term liabilities	<u>36,772,133</u>
Total liabilities	<u>38,872,518</u>

### Net Assets

Invested in capital assets - Net of related debt	69,339,664
Restricted for capital purposes	4,750,339
Unrestricted	<u>1,307,967</u>
Total net assets	<u><u>\$ 75,397,970</u></u>

# South Huron Valley Utility Authority

## Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2004

### Operating Revenue

Sewage billings	\$ 3,323,051
Permit and review fees	36,117
Total operating revenue	3,359,168

### Operating Expenses

Contractual - Operation and maintenance	2,490,251
Professional fees	110,144
Insurance expense	209,709
Financial consulting	20,000
Vehicle leases	1,448
Land application fee	12,401
Meter testing	107,015
Net lookback adjustment	122,418
Permit and review fees	35,763
Miscellaneous expense	38,100
Total operating expenses	3,147,249

Operating Income	211,919
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### Nonoperating Revenue (Expenses)

Debt billings to communities	2,498,582
Interest income and other	23,286
Interest expense	(669,283)
Depreciation and amortization	(2,113,759)
Net nonoperating expenses	(261,174)

Net Loss - Before capital contributions	(49,255)
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Capital Contributions	4,734,896
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Change in Net Assets	4,685,641
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Net Assets - Beginning of year	70,712,329
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Net Assets - End of year	<u>\$ 75,397,970</u>
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# South Huron Valley Utility Authority

## Statement of Cash Flows Year Ended December 31, 2004

### Cash Flows from Operating Activities

Cash received from communities	\$ 3,597,816
Cash payments to suppliers for goods and services	<u>(3,425,748)</u>
Net cash provided by operating activities	172,068

### Cash Flows from Capital and Related Financing Activities

Principal and interest paid on long-term debt	(2,781,283)
Proceeds from State Revolving Fund monies	5,199,292
Payments for the acquisition and construction of capital assets	(4,335,835)
Payment of bond issuance costs	(63,995)
Capital contributions from members	4,734,895
Collection of settlement from communities	38,333
Collection of debt billings to communities	<u>2,498,582</u>
Net cash provided by capital and related financing activities	5,289,989

### Cash Flows from Investing Activities - Interest received on investments

23,286

### Net Increase in Cash and Cash Equivalents

5,485,343

### Cash and Cash Equivalents - January 1, 2004

457,482

### Cash and Cash Equivalents - December 31, 2004

\$ 5,942,825

### Reconciliation of Operating Income to Net Cash from Operating Activities

Operating income	\$ 211,919
Adjustments to reconcile operating income to net cash from operating activities - Changes in assets and liabilities:	
Accounts receivable	262,051
Due from other governmental units	(23,403)
Prepaid expenses	(12,954)
Accounts payable	<u>(265,545)</u>
Net cash provided by operating activities	<u><u>\$ 172,068</u></u>

### Balance Sheet Classification of Cash and Cash Equivalents

Cash and cash equivalents	\$ 391,693
Restricted assets - Capital replacement and improvement (Note 3)	<u>5,551,132</u>
Total	<u><u>\$ 5,942,825</u></u>

**Noncash Financing and Related Activities** - The long-term debt obligations of the Authority increased by \$9,220,000, which represents the issuance of State Revolving Fund bonds related to the equalization basin project. At December 31, 2004, \$4,020,709 of this amount was undrawn.

# South Huron Valley Utility Authority

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## Notes to Financial Statements December 31, 2004

### **Note 1 - Nature of Entity**

The South Huron Valley Utility Authority (the "Authority") is a joint venture of the Charter Townships of Brownstown, Huron, and Van Buren, the Cities of Flat Rock, Gibraltar, Romulus, and Woodhaven, and the Village of South Rockwood. The Authority was founded in order to acquire and operate a sewage and wastewater treatment system formerly operated by Wayne County. The Authority began operations on March 1, 1999. The Authority subcontracts all operations of the system and has no employees.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from federal income tax.

### **Note 2 - Summary of Significant Accounting Policies**

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

**Reporting Entity** - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental agencies to be included in the reporting entity. In accordance with these guidelines, there are no component units to be included in these financial statements.

**Basis of Accounting** - The accrual basis of accounting is used by the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989. The Authority has elected not to follow private sector standards issued after November 30, 1989.

**Operating Revenue** - Operating revenue represents billings to member communities based on the Authority's cash-based operating expenses. Therefore, the Authority has shown depreciation expense as a nonoperating expense for purposes of the statement of revenue, expenses, and changes in net assets.

**Capital Assets** - Capital assets in the amount of \$78,248,476 were transferred by Wayne County on March 1, 1999. Since the Authority had economic ownership of these assets, they were recorded at net book value. All other capital assets are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such assets is charged as a nonoperating expense of the Authority.

# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2004

### Note 2 - Summary of Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	60 years
Interceptors	50 years
Machinery and equipment	5-20 years
Sewer meters	10 years

**Cash Equivalents** - For purposes of the statement of cash flows, all highly liquid investments with original maturities of three months or less are considered to be cash equivalents. In addition, the statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

**Reporting Change** - As of January 1, 2004, the Authority has adopted GASB Statement Number 34. This has revised the information being reported in these financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Other accounting policies are disclosed in other notes to the financial statements.

### Note 3 - Deposits

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2004

### Note 3 - Deposits (Continued)

The Authority has designated one bank for the deposit of funds. The investment policy adopted by the Board in accordance with Public Act 20 of 1943 (as amended) has authorized the Authority to deposit and invest in all investments allowed by the State statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's deposits at December 31, 2004 are included on the statement of net assets under the following classifications:

Recorded as cash	\$ 391,693
Recorded as restricted assets*	<u>5,551,132</u>
Total	<u>\$ 5,942,825</u>

\* These deposits are restricted for capital replacement and improvement. Included in this amount is \$4,750,339 of proceeds received from two communities who elected to pay for the construction project up front rather than participate in the funding of the debt issue, as well as \$800,000 of reserves. In addition, restricted assets include \$4,020,709 of State Revolving Fund proceeds not yet drawn down. Since the restricted assets result from the issuance of debt, net assets have not been restricted.

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$5,943,125 at December 31, 2004. Of that amount, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2004

### Note 4 - Capital Assets

Capital assets consist of the following:

	Balance at January 1, 2004	Additions	Balance at December 31, 2004
Capital assets not being depreciated:			
Land	\$ 898,091	\$ -	\$ 898,091
Construction in progress (Note 9)	968,944	4,232,734	5,201,678
Subtotal	1,867,035	4,232,734	6,099,769
Capital assets being depreciated:			
Buildings	58,628,421	-	58,628,421
Interceptors	46,243,019	-	46,243,019
Machinery and equipment	685,708	103,101	788,809
Sewer meters	1,290,687	-	1,290,687
Subtotal	106,847,835	103,101	106,950,936
Less accumulated depreciation for:			
Buildings	(3,522,390)	(977,140)	(4,499,530)
Interceptors	(4,624,300)	(924,860)	(5,549,160)
Machinery and equipment	(310,033)	(81,357)	(391,390)
Sewer meters	(248,468)	(129,069)	(377,537)
Subtotal	(8,705,191)	(2,112,426)	(10,817,617)
Net capital assets being depreciated	98,142,644	(2,009,325)	96,133,319
Total capital assets - Net of depreciation	\$ 100,009,679	\$ 2,223,409	\$ 102,233,088



# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2004

### Note 5 - Long-term Debt

#### Outstanding Debt

The following is a summary of the debt outstanding of the Authority as of December 31, 2004:

	January 1, 2004	Additions	Reductions	December 31, 2004
State revolving fund bonds #5028-01, dated September 1998, maturing through 2011, in the amount of \$9,680,000. Principal payments are due annually on April 1, with interest at 2.00%	\$ 6,250,000	\$ -	\$ (730,000)	\$ 5,520,000
State revolving fund bonds #5161-01, dated September 1998, maturing through 2020, in the amount of \$26,307,133. Principal payments are due annually on October 1, with interest at 2.25%	23,042,133	-	(1,125,000)	21,917,133
State revolving fund bonds #5212-01, dated June 2004, maturing through 2026, in the amount of \$9,220,000. Principal payments are due annually on April 1, with interest at 2.125%	-	9,220,000	-	9,220,000
Meter installment loan dated September 2001, maturing through 2005, in the amount of \$1,285,000. Principal payments are due annually on November 1, with interest at 5%	514,000	-	(257,000)	257,000
Subtotal of long-term debt outstanding	29,806,133	<u>\$ 9,220,000</u>	<u>\$ (2,112,000)</u>	36,914,133
Less current portion of meter loan payable	(257,000)			(257,000)
Total long-term debt outstanding	<u>\$ 29,549,133</u>			<u>\$ 36,657,133</u>

# South Huron Valley Utility Authority

## Notes to Financial Statements December 31, 2004

### Note 5 - Long-term Debt (Continued)

#### Debt Service Requirements

The annual principal and interest requirements for the debt outstanding as of December 31, 2004 are as follows:

Years Ending December 31	Principal	Interest	Total
2005	\$ 2,152,000	\$ 691,865	\$ 2,843,865
2006	1,935,000	555,198	2,490,198
2007	2,355,000	513,348	2,868,348
2008	2,405,000	470,586	2,875,586
2009	2,455,000	426,848	2,881,848
2010-2014	10,475,000	2,105,766	12,580,766
2015-2019	9,840,000	1,372,763	11,212,763
2020-2024	4,187,133	452,548	4,639,681
2025-2026	1,110,000	183,110	1,293,110
Total	<u>\$ 36,914,133</u>	<u>\$ 6,772,032</u>	<u>\$ 43,686,165</u>

#### Interest

Total interest incurred for the year ended December 31, 2004 was approximately \$669,000.

#### Debt Service Agreement

The outstanding debt of the Authority, except for the meter installment loan, will be funded through direct billings to the community members, rather than through working capital. Therefore, the Authority has classified all outstanding debt service requirements, except for the meter installment loan, as long-term.

### Note 6 - Due to Other Governmental Units

In May 2002, a lawsuit filed by one of the Authority's member communities was settled. The settlement requires the Authority to pay the filing community \$38,333 each year from December 31, 2003 through December 31, 2008. The Authority will collect the funds for this settlement through a separate billing to the member communities based on usage percentages. The related receivable and payable have been recorded at December 31, 2004.

# **South Huron Valley Utility Authority**

## **Notes to Financial Statements December 31, 2004**

### **Note 7 - Commitment**

The Authority is under a consent order with the Department of Environmental Quality concerning the construction of an equalization basin for the Authority's sewage treatment plant facility. The project is expected to cost approximately \$14,000,000, which is being financed through bonds. Construction in process at December 31, 2004 represents expenses incurred toward this project, which is approximately \$5,200,000. The communities have entered into a contract with the Authority, whereby the communities have agreed to pay the principal and interest on the bonds as they become due.

In addition, the Authority entered into a contract with an engineering firm to conduct a meter study. The project, which began in October 2004, is expected to be completed by September 2005. The total project commitment is \$278,000, of which costs of \$69,515 have been incurred as of December 31, 2004.

### **Note 8 - Risk Management**

The Authority is exposed to various risks related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance for possible claims relating to these risks. Settled claims relating to the commercial insurance have not exceeded the amount of insurance since inception. The Authority has no employees, and, therefore, does not have exposure to risks related to employee injuries or medical expenses.

### **Note 9 - Contingency**

The Authority is involved in a claim brought by the Environmental Protection Agency regarding questioned costs incurred by Wayne County related to grants received for construction of the sewage treatment plant. The County is the former operator of the plant. The proceedings have not yet progressed to a point where a legal opinion can be reached as to the ultimate liability, if any, that may result from the resolution of this matter. The Authority has not recorded a liability at December 31, 2004.

### **Note 10 - Accounts Receivable**

The Authority has accounts receivable approximating \$69,000 from one of its member communities for debt charges related to a new equalization basin, legal fees, and lookback charges. The member community is disputing the amount it owes and believes it to be significantly less than \$69,000.

## **Supplemental Information**

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# South Huron Valley Utility Authority

## Statement of Revenue and Expenses Budget and Actual Year Ended December 31, 2004

	Amended Budget 2004	Audited 2004	Difference
<b>Revenue</b>			
Revenue from communities:			
Plant and related costs	\$ 3,163,860	\$ 3,163,851	\$ (9)
Trenton Arm Pump Station	144,200	144,200	-
Odette Pump Station	15,000	15,000	-
Permit and review fees	34,925	36,117	1,192
Interest	5,500	5,946	446
Total revenue	3,363,485	3,365,114	1,629
<b>Expenses</b>			
Earthtech	2,488,304	2,488,303	1
Maintenance of equipment	10,000	-	10,000
Insurance	209,709	209,709	-
Miscellaneous contractual	1,947	1,948	(1)
Financial consulting	20,000	20,000	-
Professional fees	120,000	120,542	(542)
Depreciation	2,075,000	2,113,759	(38,759)
Land application fee	12,401	12,401	-
Meters - Debt service and engineering	282,700	282,700	-
Engineering - Metering and analysis	93,500	69,515	23,985
Meter testing	37,501	37,501	-
NPDES permit fees	18,572	18,572	-
State of Michigan discharge violations	27,500	27,500	-
Miscellaneous	1,593	1,649	(56)
Plan reviews	16,500	17,191	(691)
Total expenses	5,415,227	5,421,290	(6,063)
<b>Net Loss</b>	(2,051,742)	(2,056,176)	(4,434)
<b>Cash Adjustments</b>			
Depreciation	2,075,000	2,113,759	38,759
Capital improvements	(160,000)	(103,101)	56,899
Total funds provided for operations	<u>\$ (136,742)</u>	<u>\$ (45,518)</u>	<u>\$ 91,224</u>

# **South Huron Valley Utility Authority**

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## **Note to Additional Information Year Ended December 31, 2004**

### **Note - Budget and Actual Basis of Accounting**

The statement of revenue and expenses - budget and actual is prepared on the accounting method utilized when preparing the budget. This method differs from the full accrual basis of accounting in the following ways:

- Revenues and expenses are stated on cash versus a full accrual basis.
- The budgeted expenses include the current portion of principal and interest payments on the meter installment loan, since these payments are made from working capital.



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February 18, 2005

Board of Commissioners  
South Huron Valley Utility Authority  
34001 West Jefferson  
Brownstown Township, MI 48173

Dear Commissioners:

We have recently completed our audit of the financial statements of the South Huron Valley Utility Authority for the year ended December 31, 2004. In addition to the audit report, we offer the following comments and recommendations:

#### **GASB 34**

The Government Accounting Standards Board has issued a major new pronouncement that will drastically change the way governmental financial statements will look. The purported benefits of the new model include improved comparability of financial statements between governmental entities, and a better matching of the current year's revenue sources to the full cost of services provided during that year.

For the Authority, this pronouncement was effective beginning January 1, 2004. One significant change for the Authority is, after adoption of GASB 34, the Authority is required to include a "Management Discussion and Analysis" section in the financial statements.

#### **Internal Control Considerations**

During the year's audit, we were required to adopt the Statement on Auditing Standards Number 99 (referred to as SAS 99) entitled Consideration of Fraud in a Financial Statement Audit. SAS 99 requires new procedures regarding the auditor's consideration of the possibility of fraud in a financial statement audit. This resulted in new and additional testing in the conduct of this year's audit. Therefore, the comment noted below is a result of the additional procedures applied through the implementation of SAS 99.

During our testing, we noted that the control over bank reconciliations and adjusting journal entries could be improved with the appropriate signature or notation indicating that these items have been approved. Therefore, we would recommend the treasurer initial the bank reconciliations and adjusting journal entries to ensure proper documentation of this internal control procedure.



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**Federal Awards Compliance Audit**

A portion of the state revolving funds received by the Authority in relation to the construction of the equalization basin were federal monies. As such, the Authority was required to have an audit of federal programs. The audit was done in compliance with the standards set by the *Government Auditing Standards*. A compliance audit is expected to occur for each year in which the Authority spends state revolving funds in connection with the project with the federal portion of the funding exceeding \$500,000.

We appreciate the opportunity to serve the Authority. We would like to thank Sharry Budd and Sean Bellingham for the cooperation extended to us during the audit. If you have any questions regarding this letter, please feel free to contact us.

Yours truly,

**PLANTE & MORAN, PLLC**



Gordon E. Krater



Stacey L. Reeves